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2002 STRATEGIC BUSINESS PLAN

JULY 1, 2001
THROUGH
JUNE 30, 2002



*Our Mission: Montana's insurance carrier
of choice and industry leader in service.*

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From the President . . .

On behalf of the Board, leadership and staff of Montana State Fund (MSF), we provide our Strategic Business Plan for fiscal year 2002. This is our seventh consecutive document to outline our strategic priorities, corporate goals, and initiatives.

Strategic business planning has been an invaluable operational management tool for many years at the MSF. We have successfully used the annual process to develop and implement important initiatives that have significantly changed the way we do business. Comprehensive business planning has also resulted in many successes for the MSF as it transitions to an insurance carrier operating to excel in service to Montana business.

This past fiscal year, the MSF undertook a major redesign initiative that is unparalleled in the company's history. Preparing for the market challenges of a new century, the MSF restructured its entire organization around the needs, wants and expectations of its customers.

I am happy to report that the redesign initiative was successfully completed ahead of schedule in November 2000.

For this fiscal year we will continue to concentrate on our strategic business planning, and capitalize on the dedication and commitment of our staff. Our primary focus will be to enhance our systems foundation so we can improve the delivery of services and products to our customers.

We owe much of our success to an effective strategic business planning process and to the many dedicated MSF Fund employees who gave freely of their time, expertise and creativity to bring this vision to reality. It is this type of dedication and commitment that ensures a strong, healthy MSF will be here for Montana's business owners and their employees for many years to come.

---Carl Swanson
President and Chief Executive Officer

Executive Summary

Montana State Fund's goal is to continue its status as a driving force in the workers' compensation insurance market in Montana. To accomplish this, our strategic priorities for fiscal year 2002 will focus on meeting our customers' changing needs in a dynamic workers' compensation environment while remaining financially sound.

The State Fund provides to all employers regardless of size or industry, a viable and cost effective option for their workers' compensations coverage. However, competition by the State Fund for larger customers is necessary since without a healthy cross section of business and a "sharing of the risk" concept, rates would not be affordable for many small business owners. Having the State Fund in Montana means workers' compensation premiums are more competitive for all Montana businesses.

A financially strong State Fund offers additional benefits, including returning any surplus beyond what is needed for prudent business operations in the form of dividends to Montana employers.

Specifically, our strategic priorities will address continued improvement to meet customers needs, wants and expectations, which includes continued growth opportunities for employees, strengthening and enhancing our systems foundation to support our services to customers, and reviewing and planning our corporate structure improvements to strengthen our services to Montana and Montana businesses.

Strategic initiatives are the means by which the State Fund will achieve its strategic goals. Our strategic initiatives for fiscal year 2002 are:

- ❑ Continue to implement and refine our redesign initiatives to enhance overall customer service delivery to our policyholders and their injured employees.
- ❑ Strengthen and enhance our Information Technology foundation to improve customer utility.
- ❑ Improve business practices to enhance the ease of doing business with the State Fund.
- ❑ Develop and implement a long range comprehensive public relations and marketing plan to inform Montana businesses of the strengths and services of the State Fund.
- ❑ Develop a long-term corporate strategy to ensure the State Fund's continued viability.

1. Strategic Framework

Mission

Montana State Fund is Montana's insurance carrier of choice and industry leader in service.

Vision

Montana State Fund envisions a healthy and competitive workers' compensation insurance market where Montana businesses have an option to obtain competitively priced products and high quality service. Montana State Fund, by maintaining financial strength and superior service, is a competitive driving force in the market place able to weather fluctuating market conditions and entry and exit of private insurers (the insurance cycle).

Guiding Principles

- **Integrity and Ethical Conduct**

While providing superior service to our policyholders, their injured employees, and insurance producers, we will conduct ourselves with integrity and in an ethical manner.

- **Customer Focus**

Enhance and maintain a partnership with stakeholders in the true spirit of cooperation. Enter into strategic partnerships when they can improve service and products to our customers.

- **Strong Financial Position**

Maintain adequate rate levels, financial strength and stability. Maintains a strong financial position to ensure continued long term stability and financial solvency based on actuarial sound rates and reserves.

- **Offer Quality & Competitive Insurance Service and Products**

Deliver high quality insurance products to Montana Business operations at the lowest possible cost consistent with sound insurance principles. Foster and support a competitive insurance market in Montana. In doing

so, the State Fund basically functions as a private insurer asserting its competitiveness within the framework of maintaining a healthy financial position, and competitively priced products based on sound rates.

- **Employee Growth and Development**

Support a performance driven culture and continuous improvement work environment, which is conducive to the development and growth of our employees. Foster a customer-focused, team oriented, high performance culture that rewards, satisfies, empowers, and challenges our employees.

2. Organizational Profile

The State of Montana originally established Montana State Fund in 1915 as a competitive workers' compensation insurance carrier. Since then, the State Fund has assumed several different forms, with its current structure resulting from actions taken in 1990, when a system reorganization separated the workers' compensation regulatory functions (which were established in the Montana Department of Labor and Industry) from the insurance responsibilities (which were vested in a separate State Fund). The State Fund is governed by a seven-member board of directors appointed by the Governor, and a President/CEO appointed by the board.

Today, Montana State Fund is a self-sufficient, non-profit workers' compensation insurance carrier. Its statutory purpose is to be a competitive insurance carrier, provide an available market, and guarantee coverage to all employers in Montana. The State Fund receives no taxpayer or general fund money and operates solely on the premiums paid by insured employers. As a result, the State Fund functions like a private insurance carrier in a competitive marketplace and, as provided in law, performs all functions and exercises all powers of a private insurance carrier that are necessary, appropriate or convenient for the administration of the State Fund.

The State Fund is a leading force in Montana's workers' compensation insurance market through competitive pricing, improved service, and a strong financial position. A comprehensive redesign in 2000 enhanced the State Fund's operational structure with the addition of multifunctional teams to service specific groups of employers and their injured employees, a flatter management structure, increased empowerment of employees, and additional safety and medical claim management staff. The company is an active partner with the employers it insures and the injured employees it serves to deliver high quality workers' compensation products and services. The State Fund has been successful in reducing premium rates, helping achieve safer workplaces, and operating as a well-managed insurance organization.

3. Strategic Priorities

Strategic priorities are long term and structural in nature and define the fundamental ways that an organization will conduct business in the future. They are typically ranked in order to guide resource allocation to key markets, products, and customers.

The State Fund will continue to focus on the following priorities in FY 2002 in order to continue to meet our customer's needs in a dynamic workers' compensation insurance environment.

- ♦ ***Customer Satisfaction*** – Strengthen the State Fund's customer focus, service, and satisfaction through continually aligning with customer's needs wants and expectations.
- ♦ ***Competitive Position*** – Continue to Develop the State Fund's competitive advantage and position in the marketplace by anticipating and proactively applying organizational effectiveness, dynamic innovation and responsiveness to address market changes.
- ♦ ***Financial Position*** – Strengthen the State Fund's reserve to surplus position.
- ♦ ***Corporate Position*** – Strengthen the State Fund's corporate capabilities by focusing on continuous employee development, strengthening and enhancing our systems foundations and reviewing our corporate structure to better serve Montana businesses.

4. Strategic Key Success Measures

Strategic key success measures are the goals the State Fund will focus on in fiscal year 2002. They are measurable in terms of time, quality, quantity, and/or dollars.

The following objectives are the corporate level key success measures the State Fund will use to measure strategic and financial success for fiscal year 2002.

<i>Strategic Priority</i>	<i>Strategic Success Measures</i>
Customer Satisfaction	<ol style="list-style-type: none">1. Improve claim quality assurance results by 20%.2. A) Through safety efforts achieve a frequency target of .78 or less. B) Complete benchmark by August 1, 2001 and improve the safety management quality assurance results by 15%.3. A) Through effective underwriting meet targeted rate deviations. B) Complete benchmark by August 1, 2001 and improve the underwriting quality assurance results by 15%.4. On team mid and large accounts, improve pure loss ratios by 3% over previous years results.5. Achieve a level of business retention of 86% or more.
Competitive Position	<ol style="list-style-type: none">6. Increase net earned premium to \$78.13 million.7. Increase new business acquisitions to \$8.1 million or more in written premium.
Financial Position	<ol style="list-style-type: none">8. Achieve targeted best estimate fiscal year net operating income for FY 2002 of \$11.365 million with a minimum net income target of \$9.737 million.9. Achieve best estimate profitability target of 125.49 on our combined ratio before dividend, with a minimum target of 127.57.

<i>Strategic Priority</i>	<i>Strategic Success Measures</i>
	10. Achieve targeted best estimate surplus of \$167.6 million with a surplus target of \$166.1 million, with a reserve-to-surplus ratio target range of (2.0 to 1.5) to 1, based on review by Tillinghast – Towers Perrin.
Corporate Focus	<p>11. Focus on the State Fund’s “strategic initiatives” and complete 75% or more of the targeted milestones.</p> <p>12. Focus on internal customer service by meeting service agreements 85% or more of the time.</p> <p>13. Focus on employee development by encouraging participation and completion of development plans 85% or more of the time.</p>

5. Strategic Initiatives

Strategic initiatives are large multi-departmental projects that represent how MSF will achieve its strategic goals.

<i>Strategic Initiative</i>	<i>Strategic Priorities Addressed</i>
1. Customer Service – Continue to implement and refine our redesign initiatives, focusing on service delivery to our insureds and their injured employees, and improving the training and development opportunities to our staff.	Customer satisfaction Competitive position Corporate focus
2. Information Technology – Establish a solid and expandable systems foundation through skilled staff and structured practices to better serve internal and external customers wants, needs and expectations for current and future requests for information communications and processes.	Customer satisfaction Competitive position Corporate focus
3. Ease of Doing Business – Improve business practices by continually evaluating processes, forms, programs and procedures to enhance the ease of doing business with the State Fund.	Competitive position Customer satisfaction
4. Public Relations and Marketing – Develop and implement a long-range comprehensive public relations and marketing plan that sells and capitalizes on our distribution system, narrow business focus, and multifunctional customer aligned teams.	Customer satisfaction Competitive position Corporate focus
5. Montana State Fund Structure – Develop a long-term strategy that maximizes the State Fund’s viability and ability to provide value to our customers.	Customer satisfaction Competitive position Financial position Corporate focus

6. Financial Projections

PROJECTED RESULTS OF OPERATIONS

MONTANA STATE FUND

Statutory Basis

Operating Statement

	Actual	Best Estimate			
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Premium Income	\$70,657	\$74,914	\$78,133	\$81,416	\$85,299
Investment & Other Income	30,606	32,428	31,278	32,512	34,814
Total Losses and Expenses	88,915	93,935	98,046	101,190	105,734
Policyholder Dividend	6,951	5,000	TBD	TBD	TBD
Net Income	<u>\$5,397</u>	<u>\$8,407</u>	<u>\$11,365</u>	<u>\$12,738</u>	<u>\$14,378</u>

TBD - Future dividends to be determined by the Board of Directors

Premium to Surplus Ratio (X : 1) (a)	0.51	0.49	0.47	0.44	0.43
Loss Reserve to Surplus Ratio (X : 1) (a)	2.27	2.14	2.03	1.93	1.83
FY Combined Ratio (Loss + LAE + UW)	125.8%	125.4%	125.5%	124.3%	124.0%
Dividend to Premium Ratio	9.8%	6.7%	TBD	TBD	TBD

Balance Sheet

Total Assets	<u>\$573,134</u>	<u>\$594,573</u>	<u>\$621,958</u>	<u>\$650,550</u>	<u>\$681,138</u>
Unpaid Losses and Loss Adjustment Expenses	\$314,900	\$327,765	\$340,737	\$353,594	\$367,048
Other Liabilities	119,465	114,700	114,700	114,700	114,700
Total Liabilities	<u>\$434,365</u>	<u>\$442,465</u>	<u>\$455,437</u>	<u>\$468,289</u>	<u>\$481,743</u>
Surplus (b)	<u>\$138,768</u>	<u>\$153,279</u>	<u>\$167,688</u>	<u>\$183,426</u>	<u>\$200,560</u>
Total Liabilities and Surplus	<u>\$573,134</u>	<u>\$594,573</u>	<u>\$621,958</u>	<u>\$650,550</u>	<u>\$681,138</u>

(a) Ratios prior to any dividend declared by the Board of Directors.

(b) Surplus includes funds from the Old Fund in excess of the 10% loss contingency as required in 39-71-2352 (5), MCA, and Surplus was reduced by the impact of dividends declared by the Board of Directors.

Montana State Fund Board of Directors

Herb Leuprecht, Chairman

Tom Horn

Lorretta Lynde

Wendy Susott

Derek Grewatz

Susan Knedler

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5 South Last Chance Gulch • P.O. Box 4759 • Helena, MT 59604-4759
800-332-6102 • 406-444-6500 • Fax: 406-444-7796 • www.montanastatefund.com

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